

CITY OF ADAIR

**INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2014 THROUGH JUNE 30, 2015**

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City of Adair

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
John Larsen	Mayor	Jan 2016
Larry Ludwig	Council Member	Jan 2016
James Snyder	Council Member	Jan 2016
Craig Wedemeyer	Council Member	Jan 2016
Rick Hays	Council Member	Jan 2018
Rick Stanley	Council Member	Jan 2018
Randi Lehman	Clerk/Treasurer	Indefinite



Diane McGrain, CPA
Jim Menard, CPA

Independent Accountants' Report on Applying Agreed-Upon Procedures

To the Honorable Mayor
and Members of City Council:

We have performed an agreed-upon procedures engagement of the City of Adair pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide certain minimum oversight of Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Adair for the period July 1, 2014 through June 30, 2015. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2014 Annual Financial Report (AFR) to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.

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8. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.
9. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We reviewed and tested selected tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
11. We reviewed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa.
12. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
13. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
14. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
15. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
16. We reviewed the annual certified budget for proper authorization, certification and timely amendment.
17. We reviewed the status of previous report findings.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

These agreed upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on financial statements or part thereof. Had we performed additional procedures, or had we performed an audit of the City of Adair, additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Adair and other parties to whom the City of Adair may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Adair during the course of our examination. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Schroer & Associates, PC

December 4, 2015

Detailed Recommendations

City of Adair
Detail Recommendations
For the period July 1, 2014 through June 30, 2015

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

- (1) Receipts – collecting, depositing, journalizing, and posting.
- (2) Payroll – preparation and distribution.
- (3) Utilities – preparing billings, collecting, assessing penalties, depositing and posting payments to customer accounts and recording payments in the City's utility system
- (4) Financial reporting – preparing and reconciling.
- (5) Journal entries – preparing and journalizing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations and journal entries should be evidenced by the signature or initials of the reviewer and the date of the review.

- (B) City Library Department - All accounting functions are handled by one individual without adequate compensating controls.

Recommendation - The Library Department should segregate accounting duties to the extent possible.

- (C) City Council Minutes –Chapter 372.13(6) of the Code of Iowa requires minutes of Council proceedings include a summary of all receipts. Publications of for two of the four meetings tested did not include a summary of receipts. Minutes for two of the four meetings tested were not signed by the Clerk and Mayor.

Recommendation – The City should comply with the Code of Iowa and publish a summary of receipts in the City Council minutes, as required. The Clerk and Mayor should sign the minutes of each meeting.

- (D) Payroll Transactions – We noted no documentation of review and approval of department head time cards.

Recommendation – The Mayor should review and initial department head time sheets when signing their payroll checks.

City of Adair
Detail Recommendations
For the period July 1, 2014 through June 30, 2015

- (E) Deficit Fund Balance – At June 30, 2015, the City had the following deficit balances:

Enterprise:

Sewer	\$ 192,091
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Recommendation – The City should investigate alternatives to eliminate the deficit in order to return this fund to a sound financial position.

- (F) Revenue Notes – The Sewer Enterprise Fund has a deficit balance at the year ended June 30, 2015. The City has not established a sewer revenue note sinking account as required by the provisions of the sewer revenue note resolution.

Recommendation – The Sewer Bond Resolution requires that rates be sufficiently set to fund the operations of the Sewer Enterprise Fund and service debt requirements. The City should review alternatives to meet this requirement. The City should establish the sinking account and make the monthly transfers required.

- (G) Separately Maintained Records – The City of Adair Library Board maintains the accounting records pertaining to the operations of the library. These transactions and the resulting balances are not recorded in the Clerk's records.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, and expended for any city purpose." For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City's accounting records.

- (H) Credit Card Policy – The City has credit cards for use by various employees while on City business. The City has adopted a formal policy to regulate the use of the credit cards and to establish procedures for the proper accounting of credit card charges. However, prior to the adoption of the policy a police officer was using the card for personal use and paying his portion of the credit card bill.

Recommendation – The City should follow the policy that was adopted that prohibits personal usage.

City of Adair
Detail Recommendations
For the period July 1, 2014 through June 30, 2015

- (I) Bank Reconciliations – The Clerk is doing a monthly reconciliation clearing items from the book that are recorded in the bank statement. However, the Clerk is not printing an outstanding items list and then reconciling the reconciled bank statement to the Clerk's cash balance per book at the end of each month. The year end reconciliation was off \$3,381 more than the Clerk's cash balance.

Recommendation – The City should reconcile the bank to the book balance each month.

- (J) Certified Budget – Disbursements during the year ended June 30, 2015 exceed the amounts budgeted in the public works, culture and recreation, community and economic development and business type functions.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

- (K) Business Transactions – Business transactions between City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Rick Stanley, Council Member, part owner of Plowman & Stanley Trenching	Repairs	\$4,457

In accordance with Chapter 362.5(k) of the Code of Iowa, the above transactions may represent a conflict of interest since total transactions were more than the \$2,500 during the fiscal year and the transactions were not competitively bid.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

- (L) Investments – An accounting record/register is not maintained for each investment. The balance of three certificates of deposit at year end included interest income that was deposited in the checking account and not added to the investment.

Recommendation – An accounting record/register for each investment which includes the cost, date purchased, interest rate, maturity date and identifying number should be maintained. Interest should be recorded as an addition to the proper account in the accounting records.

City of Adair
Detail Recommendations
For the period July 1, 2014 through June 30, 2015

- (M) Annual Financial Report – The 2014 Annual Report ending balance did not agree with the accounting records. The balance was understated by \$740.

Recommendation – The City should establish procedures to ensure beginning and ending balances of the AFR are accurate and supported by the City's financial records.